



July 23, 2007

Dear BATS Subscribers and members of the Trading Community,

### **Who is the new guy in charge at BATS?**

For those who are not familiar with my background, I have been part of the securities industry since 1990. My degree is in math and computer science, and I have spent much of my career developing and managing software projects for the industry. I was one of the original founding employees of BATS Trading, Inc. The last two years have been very exciting and rewarding for me and the BATS team as we took BATS from a napkin drawing to one of the fastest growing market centers in the nation.

### **Are we going to see any more “Dave” emails?**

This is a question I have heard several times in the last couple of weeks, and the answer is both “yes” and “no”.

Dave was instrumental in taking us through the early stages of growth, and we respect his decision to step aside in order to clear the way for BATS to become a national Securities Exchange. Since he is no longer employed at BATS, he will no longer be sending emails as a representative of BATS.

The reason that part of the answer is “yes”, is because BATS will continue communicating with our subscribers and the trading community at large when we have something important to say.

We intend to send out emails to this group about once a month. The tone and content of future emails will change to reflect the new management and personality of BATS.

### **Who is BATS Trading?**

BATS was founded in June 2005 in a time when market innovation and technology leadership were at risk due to over consolidation in the ECN and Exchange industry. Independent market centers were being bought up, and the number of credible places to trade were rapidly decreasing.

The industry and technology professionals who make up the BATS team are focused on keeping innovation and competition alive in the securities markets. Over the last two years, several large and well respected industry leaders have invested in BATS. Because our employees and investors come from the industry, we are well positioned to help make the markets a better place to do business.

### **How is BATS “Making The Markets A Better Place To Do Business”?**

The first and most obvious improvement we made was in **Price Innovation**. BATS initiated and maintained an extremely aggressive add/take spread from the day we opened our doors for

business, saving our customers millions of dollars. Our internal cost structure is different from our competitors, and based on the many innovative ways that we constructed our market, **our model is sustainable**. Because of our leadership in this area, other markets have followed suit, and our customers realize the cost savings not only at BATS, but now at other markets as well.

BATS decided not to charge for many of the things our competitors charge for. This is another way we are making the markets better. Order Entry and Market Data ports are offered at no charge. We don't have "technology" or "cross-connect" fees. More importantly, our market data is free. Why would a market charge its participants for the data they send to that market? Feel free to pose this same question to our competitors ...

We are making markets better by making them **Smarter**. The BATS system runs across several parallel matching engines, providing nearly unlimited capacity growth. We continually engineer the platform to have up to 5 times more order handling capacity than required. We are constantly defining new order types and routing strategies. We hire only the smartest and brightest employees.

We are making markets better by making them **Faster**. The BATS system measures order responsiveness not in seconds, or even in milliseconds (1/1000 of a second), but in microseconds (1/1000 of a *millisecond*). The importance of speed continues to grow as automated and algorithmic trading evolve in today's markets. Subscribers recognize that our system ranks in the very top tier of speed.

We are making the markets better by **Listening to You**, our customers. We regularly ask our subscribers "What can we do to earn more of your business?", and then take those answers to heart. BATS is building the trading platform of choice, creating functionality our users need now and in the future. **We want to be Your market.**

We are making markets better through **Customer Service**. The first person you talk to when calling BATS may very well answer all of your questions. Every person at BATS takes calls from customers, and our customers like calling us! From detailed trade reports and trade break details to customized reports and enquiries ... when you need information or help at BATS, you can expect top-level, fast, and personalized service.

**Billing Innovation** is another area where we are making markets better. BATS was the first, and maybe the only, market center to **offer weekly payments to net liquidity providers**. Why wait around for your rebates, long after each month ends? Trade at BATS and get your rebates now!

By looking **Long Term**, we are making markets better. Current owners in BATS are strategic investors and users of our market. We aren't looking for a buyout or mega-merger. **BATS is here to stay**. Our goal is to build and promote better markets over time, continually improving our platform as we go.

We are making markets better by **Focusing on What We Know and Do Best**. BATS has established itself as a significant and credible market center for U.S. cash equities in a very short period of time. While we have earned sizeable market share already, we aren't letting up anytime soon.

### **What's on the horizon at BATS?**

The biggest current initiative at BATS is our application to become a national **Securities Exchange**. Contrary to what many people think, our motivation isn't the economics. The competitive forces currently at work, I believe, are going to pressure exchanges to give back more and more of the market data tape revenue to their members over time. There would be some savings in clearing related costs for us as an exchange, but not a significant amount because of our ultra efficient approach to clearing that's in place today.

Our motivation to become an exchange stems from the desire to participate directly in the national market system plans. While our customers' quotes are protected through BATS and our SRO partners today, the BATS Exchange will benefit from being directly connected to the industry plans. We desire to have regulatory parity with our primary competitors ... Nasdaq and NYSE. BATS has earned significant market share, and we are growing to a point where it just makes sense to operate as an exchange.

Another big project currently underway with the BATS development team is support for **Sponsored Access**. Several of our large customers asked for enhancements that will allow their customers to send orders through to BATS on their behalf. Enhancements here include the appropriate order monitoring and risk management tools.

BATS is also working on enhanced **Smart Routing** features to give our customers even more choices for how their unmatched orders can be filled in other market centers.

And finally, I'm excited to announce that BATS will soon have "**Quote Redundancy**" in production. As you probably already know, BATS needs to disseminate its quotes through an SRO so that our customers' Order Display requirements are being fulfilled. While we do have a path to publish our quotes to the national market system today, how much better would it be to have **two distinct and fully diverse paths to the market**? That's exactly what we have been working on this summer and are in the process of rolling into production, due to be completed shortly.

Once in production, BATS will have full redundancy to the market for our quotes through multiple SRO's. If we encounter issues on one of our paths, we can in real time move our quotes

over to an alternate path. This displayed quote resiliency will help further distinguish BATS as a trusted and preferred market center in the industry.

**Wow, are all your emails going to be so darn long?**

If you made it this far, please accept my sincere appreciation! Future emails will be much shorter and more focused on upcoming events as well as relevant market commentary when appropriate. This first email is more of a baseline so that you might better understand where we are coming from and where we are going. As always, your comments and feedback are welcome, and if you prefer to be taken off the distribution list just let me know.

Sincerely,

Joe Ratterman  
CEO & President  
BATS ... Making Markets Better